Cultural Due Diligence

Identifying your cultural DNA

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INTRODUCTION

Between 55 and 77 percent of all mergers fail to deliver on the financial promise announced when the merger was initiated, and they fail for the same two basic reasons:

- Failure to assess the potential impact of attempting to merge and integrate the cultures of the companies involved.
- Failure to plan for systemic, systematic and efficient integration of those cultures.

Culture clashes result in internal confusion and in-fighting often characterised by unfamiliar ways of doing and talking about things. These in turn result in huge inefficiencies, loss of momentum and increased internal focus at the same time that the new company needs absolute ringing clarity on purpose, plan and action with strong external focus.

The Cultural Cue Ciligence process is proactive problem solving in advance

In this presentation we will explain:
1. What a Cultural Due Diligence is
2. When it can become a value to your organisation
3. The Cultural Due Diligence Process
WHAT IS CULTURAL DUE DILIGENCE

Definition:
“Cultural Due Diligence is the process of analyzing a culture with the purpose to identify and outline the cultural strengths and weakness (- and risks and opportunities) in relation to the goals and objectives of that organisation”

You can use a Cultural Due Diligence as:

- A framework describing, assessing and compare human behavior in an organisation
- A way to identify and evaluate cultural risks and opportunities in an organisation
- A leadership tool that can facilitate an acceleration in organisational performance
- A valuable tool when prioritizing the tasks in a change process
WHY SHOULD YOU DO A CULTURAL DUE DILIGENCE?

- It improves the organisational effectiveness because you become aware of what people consider valuable in your organization

  - What in your culture makes people come to work on a rainy day?
  - What makes your clients buy your good and services if you are not a price leader?
  - Why do employees leave your company?

- It makes the recruiting process more effective

  - Our work identity is becoming increasingly important to us. It is therefore crucial that there is a cultural fit between new employees and the organisation. When you know your cultural DNA you will have an easier job interviewing and testing job candidates
  - Anyone can pay a higher salary and provide more attractive benefits, but no one can replicate your culture. By focusing on your cultural strengths outlined in your cultural DNA your company will stand out in a unique way

- It identifies the Cultural Gaps in your organisation

  - Do you have a culture that supports the goals and objectives of your organisation? You might have a vision about being the most innovative company in your industry, but if your corporate culture doesn’t promote innovation you will never get there. The vision will remain in the powerpoint presentation. By comparing the current and the ideal corporate culture we can help you facilitate the necessary changes

- It is very valuable tool when integrating organizations after a merger or acquisition

  - 65% of all M&A’s fail to meet their original objectives because of cultural friction. With a cultural due diligence in place we can lower that percentage and help you protect your investment.
  - The Cultural Due Diligence will ease the integration process and help the leadership team to focus on the right organisational issues throughout the entire integration process.
THIS IS WHY YOU SHOULD KNOW YOUR CULTURAL DNA

On this and the next slide are some results from a survey we conducted among 1200 middle managers in global operating companies. All the results are published in a Gugin Whitepaper.

How much would your company's profit increase if all employees were motivated and rewarded with respect to their cultural norms and values?

- 31% for more than 50%
- 21% for 20 - 50%
- 8% for 10 - 20%
- 0 - 10%
How important do you think it is for a global operating company to be able to take advantage of the cultural diversity?

- It is essential to a global operating company: 57%
- It is important: 36%
- Somewhat important: 5%
- Not important at all: 2%

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WHEN SHOULD YOU DO A CULTURAL DUE DILIGENCE?

- When you want to know how you can benefit the most from your corporate culture
  Why not let the cultural diversity work to your advantage instead of regarding it as a problem that should be fixed? It is a good idea - on a regular basis - to describe the ideal corporate culture and assess the current corporate culture and then initiate processes to bridge the gaps.

- In the Merger or Acquisition process
  Dealing with the cultural issues is one of the most important and yet overseen tasks when companies are involved in a merger or acquisition. Performing a cultural due diligence together with the other due diligence activities will add important information to the decision process and later to the integration process.

- When you initiate a strategy change in your organization
  When you change the strategy it is required that the organization changes accordingly. It doesn’t happen by itself and there will most often be a strong resistance to change because we human beings see all change as a threat. In that situation a Cultural Due Diligence will help you create the best plan for change playing on the cultural strengths in your organisation.

- When you have to reduce cost and increase performance
  If your leadership style, motivation- and reward systems, internal branding etc. don’t fit the reality you will experience cultural friction which leads to higher operational costs. If you are not aware of where the cultural friction is a cost cutting process can have severe negative consequences for your organisation. A Cultural Due Diligence can help you lowering the cultural friction. This way the performance will be increased.
THE PROCESS

The elements of the Cultural Due Diligence Process

Basic elements:
1. What gives status in the organisation
2. Which time orientation do you have
3. Do you focus on group or individual achievement?
4. Do you focus on relationships or rules?
5. How much does the job identity mean to people?

Other elements:
2. Leadership style
3. Problem solving Paradigm
4. Organisational Practices
5. Informal vs. formal management structure
6. Leadership/Management practices
7. Supervisory practices
8. Communication style
9. Integrity
10. Physical environment
11. Perceptions and Expectations
12. Cultural indicators and artifacts

Qualitative methodology:
- Interviews
- Focus Groups
- Workplace observations
- Documentation review

Quantitative methods:
- CEO/Executive interviews
- Workplace observations
- Org. Effectiveness assessment
- CDD Survey to a sample of all employee groups
DNA is a molecule that encodes the genetic instructions used in the development and functioning of an organism. We all have a unique DNA. It is our biological identity.

Organisations are similar. They are all unique which is why we use the term the Cultural DNA when identifying and describing a company’s culture. Like the human DNA the cultural DNA is made of components that has different forms from one organisation to the other.

We describe your organization’s cultural DNA by assessing each of the elements in the DNA. In our model we have 17 elements which make up the cultural DNA.
Step 1:: Pre-Assessment

Before we can start the cultural due diligence process we need to define the scope for- and purpose with the cultural due diligence process. As outlined earlier there are several different situations where it is beneficial to perform a cultural due diligence, but each situation requires a customized version of the cultural due diligence.

The complexity of your organisation is another factor influencing the form and content of the cultural due diligence.

All that is cleared in the pre-assessment and we will agree on a timeframe for the process.
Step 2 :: Data collection

Most of our clients have a lot of data available in form of employee surveys, exit interviews, external ratings, intranet resources, internal newsletters, statistics etc.

This information is very important to us. We re-organize it and extract the pieces that can go into the elements of the Cultural DNA.

We are also interested to see which stories have been told internally in the past. Who are the heroes, what do you focus on when telling stories etc.
Step 3 :: Interview and survey preparation

Based on the pre-assessment and the data we have collected in step 2 we customize the survey questionnaires and the interview sheets in order to secure we get all the necessary information to be able to describe your culture in the correct way.

The surveys will be available on our extranet and will contain questions in relation to all the elements of the Cultural DNA. As most of the human behavior is implicit we ask very specific questions where the answers form a preference for a certain behavior (see example to the right)

The questions will be a mix of multiple choice, free form answers and ratings on a scale form 1 to 5.

The interviews can be carried out face-to-face, via skype or telephone. We do recommend that at fair amount of the interviews are carried out face-to-face as we also observe body language, dress-code etc.

The number of people we need to interview is dependent on the size and complexity of your organisation.

Example question

A client calls you with a problem far from your field of competence. What do you do?

- You tell the client he/she has got the wrong person and switch him/her back to the reception
- You pass the client on to a colleague who might be able to help
- You get the client’s contact information and promise to back back as soon as possible
- You tell the client that your IT system is down (lie) and ask him/her to call later
Step 4 :: Processing the data

After having collected the data, closed the online surveys and done all the interviews we start processing the data and the information.

Some of the survey data are processed automatically while everything else has to be evaluated manually and categorized in one or more cultural DNA elements.

When that is done we will decide whether we need additional interviews and/or more specific questions in one or more survey fields.

Finally we look for cultural patterns and gaps if we have a benchmark.

We will invite you for a preliminary briefing of the key findings and get your feedback to these.
Step 5 :: Writing the report

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Finally we look for cultural patterns and gaps if we have a benchmark.

We will invite you for a preliminary briefing of the key findings and get your feedback to these.

What do you get?

- Detailed cultural profile of your organisation.
- Specification of cultural patterns and differences in the different sub-cultures.
- Prediction, specification and prioritisation of cultural friction points and their impact on the effectiveness.
- Specific recommendations on ways to avoid and/or minimise cultural friction
- Recommendations on organisational adjustments in order to minimise cultural friction.
- Road map for implementation of recommendations.
Step 6 :: Planning the implementation / Change process

Depending on reason why we have conducted the Cultural Due Diligence the next steps will vary a lot.

If we have done it because you need to change the culture of your organisation we will benchmark against the ideal corporate culture and develop change plans for each of the elements.

If we have done it because we need to cut costs we identify the middle manager layers that produce the most cultural friction and work with these and we will make plans for changing the culture in a way so that it will improve effectiveness even in a situation where cost are cut and people are fired.

What do you get?

- Detailed cultural profile of your organisation (Cultural DNA).
- Specification of cultural patterns and differences in the different sub-cultures.
- Prediction, specification and prioritisation of cultural friction points and their impact on the effectiveness.
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